

1-1997

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**DOI:** [https://doi.org/10.1007/978-1-349-25353-1\\_10](https://doi.org/10.1007/978-1-349-25353-1_10)

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## Citation

CLARK, Timothy Adrian Robert and MALLORY, G.. The impact of strategic choice on the international-ization of the firm. (1997). *International-ization strategies*. 193-206. Research Collection Lee Kong Chian School Of Business.

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# 10 The Impact of Strategic Choice on the Internationalisation of the Firm

*Timothy Clark and Geoff Mallory*

## INTRODUCTION

Companies either seeking to expand into foreign markets or to alter their existing institutional arrangements have a choice between three forms of foreign market servicing: exporting, foreign licensing and foreign direct investment (FDI)<sup>1</sup> (Buckley 1991; Buckley and Casson 1976; Root 1987; Terpstra 1987). The 'stages theory of internationalisation' proposes that these options are chosen in a linear sequence in that firms initially export, then establish a sales subsidiary and only when they have built up knowledge and experience do they invest directly.

Andersen (1993) has distinguished between two ways of describing the sequential process by which firms internationalise:

- The 'Uppsala Internationalisation Model' which is associated with the seminal studies undertaken by Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977);
- The 'Innovation-Related Internationalisation Models' as developed by Warren Bilkey and his colleagues (Bilkey and Tesar, 1977; Cavusgil, 1980; Czinkota, 1982).

This article focuses on the Uppsala Internationalisation Model, since a distinctive feature of this model is the stress on the development of different modes of marketing that are associated with an organisation's growing commitment to a foreign market. In contrast, the models derived from Bilkey's work are limited to the sequence of stages associated with export development.

The widespread popularity of the Uppsala Internationalisation Model is surprising since, as Reid (1984) indicates, it largely rests on a limited number of empirical studies: the initial research into the overseas expansion of four Swedish companies (Johanson and Wiedersheim-Paul, 1975), a case study of Pharmacia (cited in Johanson and Vahlne, 1977) and an Australian inves-

tigation which treated domestic expansion as analogous to export expansion (Wiedersheim-Paul, Olson and Welch, 1978). In addition, Luostarinen (1980) and Larimo (1985) have produced similar evidence for Finland (cited in Young, 1987, p. 33). However, a considerable amount of empirical research fails to support the stepwise development process identified by the Swedish researchers (see, for example, Young and Hood, 1976; Buckley, Newbould and Thurwell, 1979; Turnbull and Valla, 1986; Millington and Bayliss, 1990). Turnbull (1987) conducted a detailed critical review of the empirical evidence and concluded that, 'it does not support the proposition that the pattern of export organisational development follows an evolutionary path' (p. 36). Hedlund and Kverneland (1985) suggest such failings may result from the original Uppsala studies reflecting a particular period in the historical development of Swedish industry.

In addition to the lack of empirical support, there are a number of conceptual problems associated with the Uppsala Internationalisation Model. The first is definitional and relates to the level of analysis. It is not clear whether the theory relates to the company as a whole or the operational units which comprise the organisation, or both. In large multi-divisional/product firms, the organisational unit being observed can determine the extent and type of internationalisation observed. Operational units differ in their degree of export dependence, number of overseas markets served and institutional arrangements. For example, some multi-product firms may have distinct institutional arrangements for different product ranges. Overall, a company may have a high percentage of export sales, and whilst some product ranges may mirror this others may be more domestic in their focus. Hence, the degree and complexity of internationalisation depends on whether the empirical focus is at the group or operational level. With this in mind, the later discussion of research methods indicates the level of analysis in this study is the operational unit. This argument suggests multi-divisional/product firms may adopt several forms of foreign market servicing in a single country. Furthermore, the type of product (that is, whether it is a good or service) can influence the initial post-entry form of foreign market servicing by limiting the options available (Buckley, Pass and Prescott, 1991). For instance, Root (1987, p. 15) notes the export mode is not available to service companies. Hence, the proposition that increasing export dependency has similar institutional implications for all firms regardless of their product mix and/or market is doubtful.

Second, the institutional arrangements adopted are assumed to be a consequence of the stage in internationalisation obtained. For instance, exporting through agents is considered an initial stage of internationalisation, whilst FDI is viewed as the final stage. By contrast, Turnbull (1987), suggests that firms with considerable experience and well-developed international institutional arrangements continue to export extensively. The final stage, FDI, is achieved in a limited number of markets. This point is developed further in the discussion relating to our empirical results.